USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 1/18/2007

GAIN Report Number: PL7003

Poland

Agricultural Situation

New Tax Regulation for Biofuels

2007

Approved by:
Ed Porter
U.S. Embassy

Prepared by:
WFM/EP

Report Highlights:
A reduction in Poland's tax exemptions for biofuels has lessened enthusiasm for future production and use, especially for biodiesel, at least in the near term.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Warsaw [PL1]
[PL]

A new tax regulation for biofuel use in transport and Poland's new national biofuel legislation came into effect on January 1, 2007. (Details on Poland's biofuel legislation can be found in GAIN PL6068 from October 2006.) The regulation reduces tax exemptions for biofuel, particularly biodiesel. Below is a comparison of the new and old tax exemptions:

	New	Old	Change
		Bioethanol	
	(PLN per liter of biocomponent)		
> 2% to 5%	1.5	1.5	no change
> 5% to 10%	1.5	1.8	-17%
> 10%, <100%	1.5	2.2	-32%
		Biodiesel	
> 2% to 5%	1.0	1.5	-33%
> 5% to 10%	1.0	1.8	-44%
> 10%, <100%	1.0	2.2	-55%

Under the new tax structure, the exemption is fixed regardless of the level of the biocomponent in the fuel blend. Previously, higher blends received a larger tax exemption. Also, the new regulation established an exemption of PLN 1.68 per liter for pure biofuel (no blending).

Polish officials were required to change the tax structure because the earlier exemptions were larger than permitted under EU regulations. According to the Ministry of Finance, which is responsible for Polish tax legislation, fuel excise taxes in Poland are among the lowest in the EU, at about PLN 1,566 per 1,000 liters for gasoline (95 octane) and about PLN 1,048 for diesel.

There have been mix industry reactions to the tax changes. According to information from Trzebinia, owned by PKN Orlen and a major Polish biodiesel producer, the company has suspended production of its ON BIO 10 blend with 20 percent esters and will delay new investment in esters production. Originally, the company planned to increase its esters production to 400,000 MT by mid-2008, from the current annual level of 100,000 MT. The company also plans to increase exports of esters, at the expense of local sales, and renegotiate its contracts with its raw materials suppliers. Despite these changes, the company projects a net loss of about PLN 2.5-3.0 million (close to USD 1.0 million) in January 2007.

The Ministry of Agriculture strongly criticized the tax changes. Ministry officials believe the changes will limit biofuel consumption in Poland and consequently, reduce demand for crops use to produce biocomponents. Polish rapeseed producers believe that the changes will result in increased rapeseed exports to Germany. The Polish Biofuels Association expects the tax changes will significantly limit biofuel production in the country. Total biofuel production capacity currently is estimated at 150,000 MT to over 200,000 MT annually.

Other organizations are less pessimistic about the changes. Elstar Oils does not intend to change its plans to produce about 60,000 MT of esters this year at its Malbork facility. Biopaliwa i Komagra also intends to proceed with current plans to produce about 100,000 MT of esters by the end of 2007. However, both companies expect to export more of their production than they originally planned. Grupa Lotos also intends to proceed with plans to construct a biocomponent production facility. According to a Lotos representative, the company had anticipated the reduction in the biofuel tax exemptions.

Comment: We expect the impact of the tax change will be short-term. There is increasing local and EU pressure to develop alternative energy sources to reduce dependency on oil and gas, improve the environment and increase farm income. The Polish government fully intends to achieve its biofuel goals of 2.3 percent of total transportation fuel by 2007, rising to 5.75 percent by 2010. Success would require an estimated one million MT of biocomponents by 2010.